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### Why did Poland Choose the F-16?

By Barre R. Seguin



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# **Why did Poland Choose the F-16?**

By Barre R. Seguin<sup>\*</sup>

Editorial Date: April 2007

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## Introduction

On December 27, 2002, Poland's Minister of Defense Jerzy Szmajdzinski announced Poland's decision to purchase 48 state-of-the art F-16's fighter aircraft from Lockheed Martin. The "deal of the century," as it was characterized by Christopher R. Hill, U.S. Ambassador to Poland, was sealed on April 18, 2003 with the signing of the contract by Polish and U.S. officials, and Lockheed Martin senior executives.<sup>1</sup> The contracts involved three separate, but related, agreements: the sale of 48 F-16 52+; an offset<sup>2</sup> package to invest in Poland over a 10 year period; and favorable U.S. Government-backed low-interest financing.<sup>3</sup>

Poland's decision to purchase the F-16 had interwoven capability, interoperability, economic, and political dimensions. The main issues that drove Poland's decision to purchase the F-16 included a technical analysis of competing aircraft, price, financing, offsets, and politics. The mass media and the business community, particularly in Poland, portrayed the deal primarily in economic terms, emphasizing the favorable financing offered by the U.S. and the unprecedented offset agreement. Polish officials and politicians painted a picture of a more balanced decision for their constituents, one that emphasized price, tactical, and operational criteria over offsets. Academics, pundits, and officials from the losing bidders, Dassault and Saab/BAE, weighed politics more heavily in their assessment of the decision process than aircraft capabilities or economics. The hypothesis of this paper is that although capability, interoperability and economic interests played important roles in the Polish decision to purchase the F-16, political considerations dominated.

This paper provides a comprehensive synthesis of the Polish fighter aircraft selection process, assesses the dominate issues, and answers the question, "Why did Poland choose the F-16?" It begins with a brief examination of Poland's military aircraft status and military aircraft industrial production capability from approximately 1990 to 2002, the requirement for an advanced fighter aircraft, and Poland's military hardware procurement and acquisition processes. Analysis then turns to acquisition reforms associated with the F-16 decision, the institutional structure for purchasing military aircraft, the mechanics of the F-16 decision, and who ultimately made the decision. Given their centrality to the decision process, a capabilities comparison of the three competitors, the Lockheed Martin F-16, Saab/BAE Systems JAS-39 Gripen, and the Dassault Mirage 2000-5 Mk II is offered and interoperability considerations addressed. This study then outlines the financial construct of the three bids, to include economic issues and pressures from the U.S., French, and Swedish governments and industry, and an in-depth analysis of industrial offsets. Lastly, political issues associated with the F-16 purchase are examined.

In addition to conclusively answering the question, "Why did Poland choose the F-16," this article sheds light on the relevance of the Polish tender to future large foreign military sales (FMS). In particular, the applicability of lessons learned from the Polish sale to other large FMS is gauged.

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<sup>1</sup> Tagliabue, "Lockheed Wins Huge Sale," p. 4.

<sup>2</sup> 'Offset' is a contracting and acquisition term of art meaning an agreement between two governments or a government and a foreign supplier to invest in the country's industrial or educational base.

<sup>3</sup> Tagliabue, "Lockheed Wins Huge Sale," p. 4.

## Chapter I: Aircraft Production and Requirements

When the Iron Curtain fell, Poland found itself with a fairly robust, but eroding Air Force. The country had a total of approximately 800 combat aircraft in 1990.<sup>4</sup> This number decreased rapidly to 300 in 1998, with a target of about 100 slated for 2002.<sup>5</sup> The deteriorating fighter aircraft inventory and the target plan of 100 influenced the mindset of the Polish decision-makers leading up to the decision at the end of 2002 to purchase the F-16. Of the fighter aircraft Poland had in its inventory in 1990, only a handful had any reasonably modern combat capability: twenty-two MiG-29s and nearly 100 Su-22s.<sup>6</sup> In addition to limited numbers of combat aircraft, Polish aircraft production capacity was in a dismal state

In the post-Cold War period, existing Polish aerospace companies became fragmented and their capabilities deteriorated. Of the companies that weathered the break-up of the Soviet Union, PZL-Mielec became the largest aircraft producer. Mielec's contracts included modernization of the M-28 Bryza/Skytruck transport aircraft, 10 M-28s for the Polish Air Force, overseas contracts for M-28 sales, and the testing of an upgrade package for Polish Navy M-28s. In addition, Mielec fought unsuccessfully to produce the PZL M-93M advanced trainer, but ultimately funds were unavailable and the 93M was a naval aviation configuration. The naval aviation configuration did not provide the capabilities or configuration the Polish Air Force sought in an advanced trainer. Other aircraft projects were even less promising.<sup>7</sup>

A robust aeronautical industrial base from which to produce a fourth generation fighter in Poland did not exist. In fact, according to Brigadier General Anatol Czaban, a Polish Air Force pilot since 1978 and a member of the General Staff of the Polish Armed Forces, the Poles did not have the industrial base to indigenously produce fighter aircraft.<sup>8</sup> On the export front, Mielec attempted to sell a variant of the Iryda advanced jet trainer, the Iskra-II, to India, with the potential to transfer production to an Indian aeronautical company in the future. Domestically, Mielec pressured the Polish government to purchase a modernized Iryda. In response to this pressure, the Polish Supreme Court ruled the Ministry of Defense could procure aircraft that best fit requirements,<sup>9</sup> paving the way for the F-16 selection.

Minimal aircraft production capability existed elsewhere in Polish industry. Leading up to 2002, PZL-Swidnik was manufacturing Sokół medium helicopters, with final orders delivered to the Polish Army in 2001. The Polish Air Force had also contracted to buy 47 PZL SW-4 lightweight training helicopters. In addition, Świdnik received revenue from international cooperation programs.<sup>10</sup> Ultimately, though, without an industrial base sufficient to produce a modern fighter aircraft, Poland was forced to look externally.

Internally, strong rationale existed to justify a costly investment in a fighter aircraft. As a matter of national pride, Poland, a nation that joined NATO in 1999, no longer wanted to feel like a second class relative to other Western air forces. It also wanted the purchase to reflect the

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<sup>4</sup> Simon, "Poland and NATO," p. 90.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Holdanowicz, "Polish Defense Industry: Living on the Edge."

<sup>8</sup> Czaban, Personal interview with author.

<sup>9</sup> United States Department of Commerce, Bureau of Industry and Security, "Poland."

<sup>10</sup> Holdanowicz, "Polish Defense Industry: Living on the Edge."

country's recent military transformation.<sup>11</sup> Moreover, Poland not only needed interoperable aircraft that met NATO standards,<sup>12</sup> it had to have the capability of committing 48 modern jet fighters to NATO Reaction Forces (NRF).<sup>13</sup> Existing Polish fighters were costly to maintain and operate, lacked NATO interoperability, and did were insufficient to meet the NRF commitment. Polish officials felt that equipment modernization, and the F-16 in particular, bolstered Poland's standing in NATO and the professionalization of its military.<sup>14</sup>

It was largely believed that unless airmen were provided the proper tools to do their job, no amount of institutional change would be adequate.<sup>15</sup> New jets entailed better-trained personnel. Thus, the introduction of a fourth generation combat aircraft would have a cascading effect on training and retention, including an improvement in the overall skill of the fighter pilot cadre.<sup>16</sup> Lastly, Poland's Prime Minister, Leszek Miller, stressed the purchase of modern fighters would cement Poland's allied credibility and "strategic partnership with the world's most developed democracies," as well as enable Poland to "effectively defend [our] airspace and react effectively to threats of terrorism from the air."<sup>17</sup>

As eloquently as proponents justified Poland's need for a modern, fourth-generation multirole fighter, opponents voiced their objections just as vehemently. In August 2002, Andrzej Karkoszka, the former defense state secretary, published an article entitled "Fly or Think?" An early supporter of Poland acquiring modern fighter aircraft, Karkoszka performed an about-face and argued that the former threat from the east had been superseded by a terrorist threat that did not justify a large investment in expensive new jet fighters. Instead, Karkoszka advocated buying used fighters. His opinion was rebuffed by Deputy Defense Minister Zemke in an article entitled "Thinking and Flying." In the article, Zemke demonstrated that used fighters would cost half as much as new fighters but would have less than half the life expectancy in terms of flying hours and would not be nearly as technically advanced. Instead, Zemke supported a plan to purchase new fighters with a favorable contract that delayed the brunt of the financial liabilities until after 2009, when 1970s era loans would be paid.<sup>18</sup> With the requirement for modern jet fighter aircraft established, Poland embarked on an acquisition and procurement process that was initially riddled with corruption.

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<sup>11</sup> Glowacki and Sobzack, "Poland Opts for F-16s."

<sup>12</sup> Bollyn, "Why Eastern Europe Supported War."

<sup>13</sup> Simon, "Poland and NATO," p. 90.

<sup>14</sup> Michta, "Modernizing the Polish Military," p. 44.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid, p. 45.

<sup>17</sup> The Chancellery of the Prime Minister, Republic of Poland, "Signing of Agreement for Delivery."

<sup>18</sup> Simon, "Poland and NATO," p. 135.



## Chapter II: Acquisition Process

To fully grasp how the final decision was made to select the F-16, the process leading to the downselect<sup>19</sup> must first be analyzed. Such an analysis must begin with an understanding of Poland's acquisition process. In Poland, public and social institutions, including the Ministry of Defense, Sejm, Senate,<sup>20</sup> Commission of National Defense, the Highest Chamber of Control (Najwyższa Izba Kontroli; NIK), and the mass-media influence military expenditures. The Polish Armed Forces articulates and justifies requirements. Parliament creates the budget. The overall budget is subject to public scrutiny via the published diary of bills. The budget is controlled by the Department of Control in the Ministry of Defense, and the execution of the budget was examined by the NIK and analyzed by Parliament.<sup>21</sup> Despite such apparently extensive oversight, Poland's acquisition processes preceding the F-16 tender lacked transparency and were plagued with corruption.

Initially, Polish officials insisted that the process for selecting a fourth generation fighter aircraft be transparent, credible, and comprehensively rigorous. An interministerial committee was established by Deputy Defense Minister Szeremietiew on March 5, 2001, to outline the way-ahead. Defense Minister Komorowski weighed in and set up an additional bidding team of experts headed by Colonel Włodzimierz Plach, the deputy director of the Armed Forces Supplies Department. Komorowski was so concerned with transparency that he charged the bidding commission to not rule out participation by opposition forces.<sup>22</sup>

Komorowski's bidding commission had two Sejm observers, Stanisław Glowacki from the Electoral Action Solidarity (Akcja Wyborcza Solidarność; AWS) party and Jerzy Szmajdzinski from the Union of Democratic Left (Sojusz Lewicy Demokratycznej; SLD) party. Additionally, there was an observer from President Kwasniewski's office. Once established in the committee, Szmajdzinski expressed concern over the tug-of-war he observed between Komorowski and Szeremietiew as to which committee, the interministerial or the bidding committee, would make the ultimate downselection decision. The tug-of-war was resolved by determining Plach's team, given their expertise, would evaluate the combat capabilities and technical aspects of each competing fighter and Szeremietiew's interministerial group would make the ultimate decision. Referring to the purchase, Deputy Prime Minister and Finance Minister Janusz Steinhoff stated, "One of the most important elements that would affect the final choice would be terms of offsetting the purchase with orders placed in Polish plants."<sup>23</sup> This largely set the priorities and ground rules for the competing bids.

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<sup>19</sup> 'Downselect' is a contracting and acquisition term of art meaning to select a final bid from two or more bids.

<sup>20</sup> Poland is a democracy with a President as Head of State. Its constitution dates from 1997. The president is elected by popular vote every five years. The Council of Ministers, or cabinet, is led by a prime minister. The prime minister proposes and the president appoints the cabinet. The cabinet is typically appointed from the majority coalition in the bicameral judicial lower house (the Sejm). Polish voters elect a bicameral parliament consisting of a 460-member lower house Sejm and a 100-member Senate (Senat). The Sejm is elected under proportional representation according to the d'Hondt method. The Senate is elected under a rare plurality bloc voting method where several candidates with the highest support are elected from each constituency. With the exception of ethnic minority parties, only candidates of political parties receiving at least 5% of the total national vote can enter the Sejm. When sitting in joint session, members of the Sejm and Senate form the National Assembly (the Zgromadzenie Narodowe).

<sup>21</sup> Ministry of National Defence. Republic of Poland. "Basic Information on the MoND Budget for 2001-2006."

<sup>22</sup> Simon, "Poland and NATO," p. 117.

<sup>23</sup> Ibid, p. 118.

The Sejm passed a contract specifications law specific to the fighter aircraft purchase in June 2001. The law outlined the requirement for 16 used fighter aircraft by 2003 and an additional 44 new fighter jets by 2006. The specifications also stated payments would not exceed 0.5 percent of Poland's gross domestic product (GDP) annually. The law required that offset arrangements be agreed to within forty-five days of a signed contract. Failure to conclude offset agreements would result in contract nullification. In response to this legislation, both Szeremietiew and Szmajdzinski voiced their concern over the difficulty of concluding offset agreements within the legislated forty-five day period.<sup>24</sup> September 10, 2001, was set as the date to announce the winning bid, with September 14, 2001, as the contract signing date. These dates, however, proved to be overly optimistic, given a corruption scandal that erupted involving the Ministry of Defense's acquisition processes and procurement orders.

In the midst of the aggressive fighter aircraft procurement schedule, a corruption scandal related to military procurement exploded and disrupted the decision timeline. Prime Minister Buzek suspended Deputy Defense Minister Szeremietiew on July 7, 2001, and appointed a special commission to investigate suspect procurement orders within the Defense Ministry. The suspension centered around Szeremietiew's close relationship with Zbigniew Farmus, who was arrested on the 10<sup>th</sup> of July while attempting to leave Poland after being charged with illegal access to state and NATO secrets without the appropriate authorization. In addition, the Military Information Services (Wojskowe Służby Informacyjne; WSI) had previously denied Farmus a security clearance. Corruption, however, was the larger accusation against Farmus. He was accused of selling inside information to bidding competitors and soliciting bribes in exchange for contracts.<sup>25</sup> On August 8, 2001, corruption charges were brought against Farmus. The case against Szeremietiew unfolded with Defense Minister Komorowski confessing he had initiated procedures against Szeremietiew as early as October 2000.

In conjunction with developments in the case, Prime Minister Buzek charged Deputy Prime Minister Janusz Steinhoff and Defense Minister Komorowski with supervising all public tenders for military equipment. The downselection announcement for the multipurpose fighter jet was immediately delayed and personnel shake-ups followed. Komorowski decided to replace Colonel Janusz Zwolinski with Colonel Paweł Nowak and General Jarosław Bielecki was placed in charge of Defense Ministry military equipment procurement. At the same time, Brigadier General Roman Baszuk, Air Force (Wojska Lotnicze i Obrony Powietrznej; WLOP) chief of logistics command, was named to replace Szeremietiew as chair of the mixed bid commission.<sup>26</sup> The shake-up in the Ministry of Defense resulting from the Szeremietiew and Farmus scandal precipitated not only personnel changes, but reform.

In spite of approaching September elections, Komorowski tasked Director General Jakub Pinkowski with providing him recommendations on transforming the Ministry of Defense. Together with retired Major General Marian Robelek, Komorowski's associate, the two presented their transformation concept. In their concept, the armed forces themselves would train and ensure combat readiness. Supplying the forces with hardware, armaments, and logistical support would fall outside the realm of the Defense Ministry. These support functions would be accomplished in coordination with the General Staff's Directorate of Defense Resources. Further, the Defense Ministry's Armaments Policy Directorate, formerly under Szeremietiew,

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<sup>24</sup> Simon, "Poland and NATO," p. 118.

<sup>25</sup> Ibid, p. 121.

<sup>26</sup> Ibid.

would facilitate General Staff planning by focusing efforts on global armaments directions and providing analysis. The major change affecting fighter aircraft procurement was the establishment of a special agency of civilians from outside the Minister of Defense's office to make procurement decisions.<sup>27</sup>

While transformational ideas were being presented and acted upon, a tragic military aviation accident further buttressed Poland's priority of procuring a new fighter aircraft. In September 2001, a TS 11 Iskra crashed and killed the pilot. The Iskra, produced by Mielec, had been produced since 1963. In a controversial decision, Minister of Defense Komorowski determined the Iskra would continue to fly and the priority would not be on replacing the Iskra with the I-22 Iryda, but, instead on fighter aircraft procurement. Poland had already spend \$300 million on the Iryda, but, even in light of the Iskra tragedy, Komorowski declared the priority was to focus on the combat capability of the Polish Air Force, which was inarguably in a "dismal" state.<sup>28</sup> Komorowski's desire to transform the Defense Ministry, as well as to make combat capability of military aviation a priority, was shared by his successor, Jerzy Szmajdzinski, following the September 2001 elections.

Upon taking over as Defense Minister, Szmajdzinski stated that it would be "imprudent to back out of purchasing a multipurpose plane due to budget constraints."<sup>29</sup> Additionally, the six-year modernization plan required review to "eliminate 'restructuring chaos,' and the ministry and commands required reformation and reduction."<sup>30</sup> "Reform" commenced across all ministries, with a 6.5 percent cut from 2002 budget allocations across the board, but equipment modernization remained the number one priority.<sup>31</sup>

This "tax" on all ministries meant an approximate PLZ1.1 billion (\$374 million) cut for the Defense Ministry. Additionally, a debt of some PLZ400 million (\$136 million) was being carried into 2002 by the Defense Ministry. The dire financial situation in the ministry, and the government in general, meant further reassessment of tenders and the potential for more cuts. However, the newly appointed Minister of Defense continued to strongly support the multipurpose fighter jet tender. He quickly brought together an expert team from both the Defense Ministry and the Ministry of Economics to work on contract terms and offset expectations. At the same time, he announced acquisition reform and declared all tenders would be re-evaluated for irregularities and corruption. Purchases were no longer to be made by military commanders. The Agency for Military Property (Agencja Mienia Wojskowego; AMW) was designated as the responsible agency for all bids.<sup>32</sup>

Along with the ongoing acquisition reform, another development occurred that effectively threatened the timeline for acquiring the multirole supersonic jet fighter. In the spring of 2002, Germany offered Poland 23 NATO interoperable MiG-29s, to add to the current Polish inventory of 22 MiG-29s, virtually free-of-charge (1 Euro).<sup>33</sup> The small number of MiG-29s did not enable Poland to retire their MiG-21s. However, the deal with Germany extended credibility to the argument, presented by Deputy Defense Minister Janusz Zemke, that Poland could delay the

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<sup>27</sup> Simon, "Poland and NATO," p. 123.

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid, p. 124.

<sup>31</sup> Michta, "Modernizing the Polish Military," p. 44.

<sup>32</sup> Simon, "Poland and NATO," p. 132.

<sup>33</sup> Michta, "Modernizing the Polish Military," p. 45.

purchase of multirole fighter aircraft from a start delivery date of 2006 to 2008 (MiG-29s were slated to fly until 2008). Szmajdzinski added the MiG-29s allowed Poland to reduce the multipurpose fighter buy from 60 to 48 aircraft. Further threatening to delay the multirole fighter procurement timeline, Szmajdzinski announced armed personnel transporters, antiarmor guided missiles, and Mi-24 helicopter modernization as his acquisition priorities. He also declared, while addressing the Sejm in January 2002, the Iryda combat trainer a “failed project,” a further blow to the Polish Air Force.<sup>34</sup> Arguments by Air Force and Air Defense chief Major General Olszewski, however, strengthened support for procuring a new fighter aircraft.

Olszewski contended that the operational cost of the MiG-29, measured as cost per flight hour, exceeded that of the MiG-21 over tenfold. The operational cost of a modern, fourth generation multipurpose fighter jet was significantly less than a MiG-29. Internal re-analysis and discussion of acquisition priorities within the Defense Ministry and other government ministries resulted in an announcement in May 2002 by Zemke. He outlined a \$3.5 billion acquisition priority for 48 multirole fighter aircraft, to be paid for outside of the normal defense budget (1.95 percent of GDP). In mid-November 2002, bids were opened by the Tender Commission and the process of technical analysis began. Deliberations were secret, but remained under the auspices of the WSI.<sup>35</sup> Due to the secrecy of the deliberations, little was published on the details of how the decision was reached.

What was known about the selection process is that the decision was made by the Tender Commission, comprised of a 23-person evaluation committee. A somewhat complicated points award system was used, consisting of 45 points for the best price, 20 points for operational suitability, 20 points for compliance with tactical and technical requirements, and 15 points for offsets. Although the actual results are not published, speculatively the F-16 was awarded 96 out of a possible 100 points, 93 for the Saab/BAE JAS-39 Gripen, and a slightly lower score for the Dassault Mirage 2000-5 Mk II.<sup>36</sup> In spite of the secret deliberations, Prime Minister Miller declared the “entire, complex process of choosing the aircraft took place under conditions of complete transparency and fairness, while preserving the objectivity that is particularly necessary in analytical work.”<sup>37</sup> The ratings, however, do not tell the whole story of why the Poles chose the F-16.

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<sup>34</sup> Simon, “Poland and NATO,” pp. 132-133.

<sup>35</sup> Ibid, p. 135.

<sup>36</sup> Glowacki and Sobzack, “Poland Opts for F-16s.”

<sup>37</sup> The Chancellery of the Prime Minister, Republic of Poland, “Signing of Agreement for Delivery.”

### Chapter III: Performance and Interoperability

In analyzing why the Poles chose the F-16, a brief analysis and comparison of the capabilities of the three contending aircraft is required. The three final competitors for the Polish Tender were the Lockheed Martin F-16C/D Block 52+, Saab/BAE Systems JAS-39 Gripen, and the Dassault Mirage 2000-5 Mk II. The actual details of what Saab/BAE Systems and Dassault offered are not public. Therefore, some of the capabilities comparisons are based on the assumption, gleaned from several sources, that the competitors offered the top-of-the-line capabilities then available. A broad-brush performance comparison of the three fighter aircraft is presented in Table 3.1.

**Table 3.1: Fighter Aircraft Performance Comparison**<sup>38</sup>

	<b>F-16C/D 52+</b>	<b>Mirage 2000-5 MkII</b>	<b>JAS-39 Gripen</b>
Max level speed (at altitude)	Above 2.0 mach	2.2 mach	Supersonic at all altitudes
Max level speed (sea level)	>1.0 mach	1.2 mach	>1.0 mach
Service ceiling	>15,240 m	18,290 m	Not available
Range (hi-low-hi attack profile)	676 nautical miles	650 nautical miles	432 nautical miles
g-limits	+9.0	+9.0/-3.2	+9.0
Max external stores load	7,226 kg	6,300 kg	Approx 6,000 kg

Poland considered the following missions as part of the decision matrix for determining which fourth generation fighter to purchase:

1. Air-to-air – air defense of land and sea and escort of friendly aircraft
2. Air-to-ground – air interdiction, battlefield interdiction, and close air support
3. Air-to-sea – function as part of air operations of naval forces
4. Air reconnaissance support – above the ground and sea, including weather recce<sup>39</sup>

Aircraft requirements included the ability to detect, track and engage air targets in all-weather, all visibility conditions. Additionally, the multi-role fighter aircraft was required to detect, track and precisely engage ground and sea targets with both guided and unguided munitions, and to conduct reconnaissance with real-time transfer between optical, optical-electronic and radio-electronic devices to ground command posts.<sup>40</sup>

As part of the technical analysis for each competing aircraft, Colonel Jan Błaszczuk of the Polish Air Force compared and evaluated the capabilities of the fighter aircraft according to various criteria. He used a relative scale to collate his results. Błaszczuk developed a composite score by weighting and combining the scores in each of the performance categories. In addition to the three competition aircraft, Błaszczuk included three combat aircraft that were being operated by the Polish Air Force in his analysis: the MiG-29 Fulcrum A, the Su-22M4 fitter, and the MiG-21bis Fishbed N. He graded all the aircraft in the following categories:

1. Technical/tactical parameters (air-air, air-ground)
2. Ability to maneuver (air-air, air-ground)
3. Armament (air-air, air-ground)
4. Avionics (air-air, air-ground)

<sup>38</sup> Jackson et al, “Jane’s All the World’s Aircraft,” p. 118, p. 440, and p. 651.

<sup>39</sup> Konopka, “Polish Military Aviation 1990-2003,” pp. 161-162.

<sup>40</sup> Ibid.

5. Dynamical properties (overall)
6. Battlefield survivability
7. Electronic warfare/self-defense characteristics
8. Operational cost (labor hours, maintenance requirement)
9. Composite factor of all of the above<sup>41</sup>

The F-16 ranked first in the air-to-air and air-to-ground mission areas of the avionics and armament categories, as well as the overall evaluation. The Mirage and the Gripen both ranked first in other categories. For instance, the Mirage excelled in electronic countermeasures and performance while the Gripen had the lowest maintenance costs. All three aircraft ranked similarly in the majority of categories and represented a major upgrade from the MiG-29 Fulcrum A, the Su-22M4 fitter, and the MiG-21bis Fishbed N. The MiG-29 had a slightly lower ranking in the technical/ tactical parameters air-to-air category. However, its lack of armaments, electronic warfare capability, and high maintenance demands placed it significantly behind the other three aircraft in the overall assessment. The other two single-role aircraft ranked 4-5 times worse in their specialties according to the relative indicators.<sup>42</sup>

The F-16C/D 52+ was the most advanced version of the fighter in NATO.<sup>43</sup> With reference to the capabilities inherent in the F-16 offered to the Poles, Mr. Mac Stevenson, Vice President for Business Development at Lockheed Martin, noted, “The airplane that the Polish government is going to receive is the finest F-16 that’s flying. They’re getting the latest in modern electronic warfare, the latest in weapons. The performance of the airplane is not exceeded anywhere. This airplane has capabilities in it that actually exceed the capabilities of the United States Air Force’s F-16s.”<sup>44</sup> Indeed, the notification to the U.S. Congress on the proposed sale bore this out.

In addition to the F-16C/D 52+ airframe, a state-of-the-art 8,000 flying hour fighter aircraft, the U.S. offered the Poles a plethora of leading-edge, technologically advanced weaponry, as listed in Table 3.2.

**Table 3.2:** June 8, 2001 Notification to Congress<sup>45</sup>

Item Number	Quantity	Description*
1	44	F-16C/D Block 50/52
2	N/A	Choice of either F100-PW-229 or F110-GE-129 engines
3	N/A	APG-68 fire control radar
4	384	AIM-120C Advanced Medium Range Air-to-Air Missile (AMRAAM)
5	384	Sidewinder AIM-9 heat seeking missiles
6	816	Maverick air-to-ground missiles
7	232	Joint Direct Attack Munition (JDAM) kits
8	232	Guided Bomb Unit (GBU) GBU-16 1,000 lb laser guided bombs
9	232	GBU-10 2,000 lb class laser guided bombs

\*Note: The Poles were also offered equipment, support, and training.

<sup>41</sup> Blaszczyk, “Walory techniczno-bojowe samolotów wielozadaniowych F-16C, JAS 39 Gripen, Mirage 2000-5.”

<sup>42</sup> Ibid.

<sup>43</sup> Aviation Week and Space Technology, “Systems Testing to Begin for Polish F-16.”

<sup>44</sup> Bollyn, “Why Eastern Europe Supported War.”

<sup>45</sup> Notifications to Congress of Pending U.S. Arms Transfers.

As negotiations continued, the U.S. offered additional aircraft, capabilities, and weapons as reported to the U.S. Congress on July 22, 2002 and outlined in Table 3.3.

**Table 3.3:** July 22, 2002 Notification to Congress<sup>46</sup>

Item Number	Quantity	Description*
1	4	F-16C Block 50/52
2	N/A	APG-68(v)9 Foreign Military Sales fire control radar
3	178	AIM-9X Sidewinder heat seeking missiles
4	280	Air-to-Ground Missile (AGM) AGM-154A/C Joint Standoff Weapon
5	140	Cluster Bomb Unit (CBU) CBU-97 bombs with Wing Corrected Munitions Dispenser (WCMD)
6	214	GBU-22/24 Paveway III guided bomb units

\*Note: This additional offer also included spares and other equipment.

Details on the French and Swedish/UK offers were more elusive. According to Yves Robins, Deputy Chairman of International Affairs for Dassault-Breguet, Poland was offered "...a new generation of Mirage 2000, equipped with the superior quality hardware, such as, for example, cruise missiles with a range of 3,000 kilometers. In NATO, Poland might find itself a member of a very exclusive club of five countries that have cruise missiles."<sup>47</sup> In addition, the Mirage 2000-5 Mk II export variant had modular avionics, laser gyro inertial navigation system, upgraded electronic countermeasures, and an expanded aircraft-missile datalink. Also included in the export variant were the capabilities detailed in Table 3.4.

**Table 3.4:** Mirage 2000-5 Mk 2 Export Variant<sup>48</sup>

Item Number	Description/Capability*
1	Damocles laser-designation pod
2	Nahar navigational forward looking infrared (in the Damocles pylon)
3	Upgraded version of the RDY radar, the RDY2, with multitarget air-to-sea search and track, high-resolution DBS mapping mode and search and track of mobile land targets
4	Multichannel recording system
5	Helmet-mounted sight/cueing system
6	Capability to carry six MICA air-to-air missiles plus air-to-surface munitions

\*Note: Plus state-of-the-art weaponry

In terms of performance and lifetime operational costs, the Gripen was an excellent aircraft by all accounts. The engine was a derivative of the GE F404 used in the Boeing F/A-18 Hornet and other platforms. A vast variety of international equipment had been successfully tested and integrated into the fighter jet. The equipment included sensors, targeting pods (with the LITENING III pod as a standard option), and a multitude of weapons. The Meteor long-range ramjet air-to-air missile, MBDA, exemplified the modern weaponry integrated with the aircraft.<sup>49</sup> The Gripen, however, had lost out on several high-profile export competition bids and was not the mainstay of the NATO fighter fleet. Capability-wise, the Gripen export variant likely included the items described in Table 3.5.

<sup>46</sup> Notifications to Congress of Pending U.S. Arms Transfers.

<sup>47</sup> Stylinska, "Mirage Backs Partnership: Interview with Yves Robins."

<sup>48</sup> Jackson et al, "Jane's All the World's Aircraft," p. 115.

<sup>49</sup> Defense Industry Daily, "The JAS-39 Gripen: Sweden's 4<sup>th</sup> Generation Wild Card."

**Table 3.5: JAS 39 Gripen Export Variant<sup>50</sup>**

Item Number	Description/Capability*
1	Full color displays
2	Helmet-mounted sight
3	Modular airborne computer system processor for the PS-05 fire control radar
4	Saab Dynamics IR-OTIS IR search and tracking system
5	In-flight refueling probe
6	Enhanced Electronic Warfare (EW) systems / Integrated EW suite
7	Redesigned rear cockpit for command and control duties
8	NATO standard radios and NATO pylons
9	On-board oxygen generating system (OBOGS)

\*Note: plus state-of-the-art weaponry

In addition to the F-16 coming out on top of Blaszczyk's technical assessments, Brigadier General Anatol Czaban noted that the F-16 was a good buy, with a great deal of combat experience. The F-16 was widely disseminated and purchased, with a total of 24 countries flying the F-16 and over 4,000 aircraft produced. He suggested the F-16 had been built and tested for many years from an operations, maintenance, logistics, and lifecycle perspective. Czaban felt the U.S. support in terms of access to training and F-16 experience was critical to preparing a relatively large number of pilots and maintainers in a short period of time.<sup>51</sup> He painted the F-16 competition in a lesser light when discussing interoperability.

Czaban felt commonality was important to fulfill Poland's role as a NATO ally. He viewed the aircraft itself as just a platform that must work as part of a system to receive and deliver information. In Czaban's opinion, the French and Swedish aircraft could not fully work within this information system, and therefore, were not fully NATO interoperable. First and foremost, Poland needed fighter aircraft that met NATO standards.<sup>52</sup> The F-16 ensured Poland's NATO interoperability. Commenting on the sale, Mr. Bruce Lemkin, deputy undersecretary of the U.S. Air Force for International Affairs, stated, "these F-16s will provide the foundation of interoperability that will enable us to carry out operations as NATO and coalition partners."<sup>53</sup>

The contracts and production capabilities for all three competitors ensured the delivered platform would be NATO interoperable, effectively taking the issue of interoperability out of the decision matrix. Additionally, as fourth generation fighter aircraft, the performance and capabilities of the three fighter jets were relatively comparable. However, in the end, the F-16 eked out a win in the technical evaluation conducted in conjunction with the tender decision. With the F-16 having emerged victorious from a technical perspective, the Poles turned to negotiating favorable financing, overall contract price, and offsets with Lockheed Martin and the U.S. government, as well as the other competitors.

<sup>50</sup> Jackson et al, "Jane's All the World's Aircraft," p. 115.

<sup>51</sup> Czaban, personal interview with author.

<sup>52</sup> Bollyn, "Why Eastern Europe Supported War."

<sup>53</sup> Defense Security Cooperation Agency, "Ceremony Marks Rollout of First F-16s for Poland."



## Chapter IV: Financing and Price

Recall that capabilities accounted for 40 out of the 100 points assessed by the Tender Commission. The remaining 60 involved price and offsets.

According to Janusz Zemke, Deputy Minister of Defense, the bid differentials amongst the three proposals were 10 percent or less.<sup>54</sup> The unit procurement costs (cost of the latest production contract, excluding most research and development and support costs, divided by number of aircraft contracted) were not released by Poland, but, as a data point, the unit procurement cost for the JAS-39C Gripen was estimated at \$68.9 million, including Value Added Tax.<sup>55</sup> Colonel Peter Podbielski,<sup>56</sup> U.S. Office of Defense Cooperation in Warsaw, further added that a matrix evaluating the price, platform capability, and weapons packages for the three aircraft yielded a small delta. He recalled a less than \$500 million difference in contract price between the highest and lowest bids.<sup>57</sup> With a relatively small differential between the highest and lowest contract prices, competitors attempted to sweeten the deal with attractive financial terms.

Just prior to the downselect decision by Poland's Tender Commission, a loan of up to \$3.8 billion with a 15-year repayment term was offered by the U.S. Department of Defense to Poland in conjunction with the F-16 sale proposal. This financial piece was critical, given the involvement and financial backing of the Swedish and British governments in support of the Gripen, and a French consortium's financial support of the Mirage 2000.<sup>58</sup> Many of the terms of financing approved by the U.S. Congress were political (discussed *infra*). However, financial offers deserve initial analysis before moving on.

The Bush Administration needed to be creative to overcome limitations imposed by existing U.S. Government financing programs. Contrary to the European model, a competitive export credit facility to issue government loans or guarantees did not exist in the U.S. The existing U.S. Export-Import Bank did not cover deals of the Polish F-16 flavor. The Defense Export Loan Guarantee (DELG), which was established in 1996 to provide the same function for military sales as the Export-Import Bank provided for other deals, was not competitive due to expensive financing terms.<sup>59</sup> These limitations needed to be creatively overcome to make the F-16 offer competitive.

A work-around was discovered in Section 23 of the Arms Export Control Act which enabled the U.S. to extend a loan to Poland direct from the U.S. Treasury. The work-around allowed the Defense Security Cooperation Agency to grant 100 percent of the loan vice the 85 percent guarantee permitted under DELG. The permissible interest rate was based on the 10-year U.S. Treasury note instead of the market rate, making the financing much more attractive. In line with Poland's desire to defer principal payments until the out-years, the U.S. Congress authorized a very competitive fixed-rate 13-year loan with principal payments deferred for 8 years. The U.S. interest rate was assessed to be close to five percent.<sup>60</sup>

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<sup>54</sup> The Warsaw Voice Online, "Offsets: The Big Payback."

<sup>55</sup> Defense-aerospace.com, "Sticker Shock: Estimating the Real Cost of Modern Fighter Aircraft."

<sup>56</sup> Colonel Peter Podbielski, Colonel, U.S. Army (retired), worked in the Office of Defense Cooperation at the U.S. Embassy in Warsaw during the period leading up to and following Poland's choice of the F-16.

<sup>57</sup> Podbielski, e-mail message to author, October 19, 2006.

<sup>58</sup> Evans, "The Financing Factor in Arms Sales," p. 539.

<sup>59</sup> Ibid.

<sup>60</sup> Penney, "Proposals Issued for Poland's Fighter Contest."

In addition, based on Congressional-approval, DSCA significantly reduced financing fees and obtained a letter of credit from a commercial bank to serve as a performance bond, which facilitated Poland's ability to meet the default subsidy requirement. Lastly, as part of the offer, Poland was permitted to buy-down the loan by increasing up-front payments, which essentially amounted to a "loan interest rate reduction fee."<sup>61</sup> All-in-all, the creativity of the U.S. Government's financing proposal made the F-16 offer more attractive.

Although details of the Gripen and Mirage financial package are not readily available, available information points to equally lucrative financial terms. The financial terms offered by the Gripen team included substantial government support and backing through the guarantee of export credit. A consortium of European banks allowed Sweden's Exportcreditnamnd and the United Kingdom's Export Credits Guarantee Department to jointly offer 100 percent coverage for 15-year loans at a competitive rate of 4.5 percent. The French government initially agreed to back 85 percent of the Mirage offer, but later agreed to back 100 percent of the financing terms at the low interest rate of 3.4 percent.<sup>62</sup> With favorable financing lined up for all three offers, Poland's attention and priority turned to proposed offsets.

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<sup>61</sup> Evans, "The Financing Factor in Arms Sales," p. 542.

<sup>62</sup> Ibid, p. 539, footnote 3.

## Chapter V: Offsets

To fully understand the part offsets played in the overall tender, a basic working knowledge of offsets, and Poland's expectations in terms of offset, is required. "Offset-speak" is defined as follows for use in this analysis:<sup>63</sup>

- Offset Agreement – an agreement signed between the Minister of Economic Affairs on behalf of the State Treasury and the foreign supplier
- Foreign Supplier – a foreign contractor delivering weapons or military equipment
- Offsetor – a foreign supplier or an enterprise acting on behalf of this supplier in direct cooperation with an offsettee
- Offsettee – an offset receiver, to include Polish companies, universities, research and development centers (R&D), or public sector entities
- Offset Commitment – the obligations of a foreign supplier (offsetor) towards an offsettee
- Direct Offset – offset commitments performed by defense industry companies, whose objective is production, repairs, servicing, research and development, and trading in armaments
- Indirect Offset – offset commitments concerning any other companies registered in Poland

On September 10, 1999, Poland, enacted legislation on certain compensation contracts (offset agreements and implementation of offset commitments) concluded in connection with supply contracts for the needs of national defense and security. Poland's expectations and objectives of offset included the development of Polish industry, especially the Polish defense industry. In addition, offsets were expected to facilitate the following: access to new export markets for Polish industry; increases in current export potential; transfer of new technologies; and improvements in organization. Poland envisioned offsets providing for development of research work, development of Polish universities and research and development centers, and the creation of new jobs in the Republic of Poland, particularly in regions affected by unemployment.

Several principles governed Polish legislation associated with offsets.<sup>64</sup> Poland's legislation made offset obligatory when the value of the contract for the delivery of armaments or military equipment exceeded 5M Euro for one foreign supplier over a period of three years. By law, total offset value could not be lower than the equivalent of the supply contract. Total offset value of direct offset commitments could not be lower than half of the value of the offset agreement. The offset agreement was to be signed between the Minister of Economic Affairs on behalf of the State Treasury and the foreign supplier, concluded in accordance with Polish Law, and signed not later than 60 days after the date of signing the supply contract. The offset period could not exceed ten years. The agreement was to be approved by the Council of Ministers and supervised by the Minister of Economic Affairs. Parties could not withdraw from or terminate the offset agreement. The law also introduced a formula for offset value evaluation.<sup>65</sup>

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<sup>63</sup> Podbielski, e-mail message to author, October 18, 2006.

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

Foreign contractors' attention was drawn to Poland's national preferences in the field of offset needs, according to Podbielski. The offset law introduced the idea of offset multipliers, with the following formula adopted:

$$\text{Offset Value} = \text{Nominal Value} \times \text{Multiplier}$$

The multiplier ranged from 0.5 to 2, or 2 to 5 (which was to be applied in cases justified by the interests of the economy or national security and the defense of the state). In the event of non-performance of an offset obligation, the level of penalty in favor of the State Treasury amounted to 100% of the value of the non-performed offset commitment. In the event of the improper performance of an offset commitment, the level of penalty in favor of the State Treasury could not exceed the value of the improper performance. The offset law also introduced a special support mechanism which could be adopted in the case of a significant change of circumstances, such as: a change in the business environment; a change in the law; bankruptcy; or adverse financial conditions. When a significant change occurred, the object, the value, or the schedule of performance of an offset commitment could be changed.<sup>66</sup>

Poland's offset law concerned prospective offsetors. Competitors expressed concerns over the following issues:

1. The offset law forced foreign offsetors to direct most offset projects to existing and, at the time, unreformed Polish defense companies, with their inefficient cost structures and Soviet-style legacy management;
2. The Polish offset law did not completely comport with common international standards for offset procedures, practices, and regulations; and
3. The penalty system for non-performance of offset obligations, with the penalties potentially exceeding 100% of the value of such obligations.<sup>67</sup>

Poland was the only state with such a large penalty. Penalties commonly ranged from between 0-10% throughout the international community. According to the Polish Offset Law, offsetors are penalized not only for non-performance (e.g., an offsetor with an obligation to deliver an offset commitment valued at \$100 succeeds in executing \$99 worth of the offset commitment during the prescribed period of time), but for failure to deliver 100% of the obligation. In the above example, the offsetor would be obligated to pay (in cash to the State Treasury) \$100 regardless of the costs expended in delivering \$99 worth of obligation. Offsetors could also be penalized on the front end of a project by being forced to fulfill all investment obligations. As an example, if an offsetor commits to investing \$100 to a direct offset project in order to achieve a defined result, but only invests \$50 in the project to meet the defined investment results, the offsetor must still pay the State Treasury the remaining \$50. This particular part of the law was disconcerting to potential offsetors, as it was viewed as an efficiency disincentive.<sup>68</sup>

Between the passing of the Offset Legislation on September 10, 1999, and the conclusion of an offset agreement with Lockheed Martin, the Poles succeeded in signing three defense-related offset agreements, detailed in Table 5.1.

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<sup>66</sup> Podbielski, e-mail message to author. October 18, 2006.

<sup>67</sup> Ibid.

<sup>68</sup> Ibid.

**Table 5.1:** Polish Offset Agreements Preceding Lockheed Martin Offsets

No.	Foreign Supplier	Issue	Date Signed	Value (inclusive of multipliers)
1	EADS Construcciones Aeronáuticas (Spain)	Delivery of C295M transport aircraft for Polish Air Force	28 Aug 2001	\$212.04M
2	GEIE Eurptorp (France)	Delivery of light torpedoes for Polish Navy	13 Dec 2001	€26.99M
3	THALES Nederland B.V. (Netherlands)	Delivery of systems for ORKAN-class ships for Polish Navy	21 Dec 2001	€76.28M
4	Lockheed Martin Corporation (USA)*	Delivery of F-16 fighters for the Polish Air Force	18 Apr 2003	\$6.028B

\* Poland requested Lockheed Martin to serve as the coordinator for all US industries (Pratt & Whitney, Raytheon, et al) with offset obligations stemming from the F-16 program. This request streamlined the POLISH process of having to conclude separate offset agreements with tens of US industries.<sup>69</sup>

After the passage of the Law on Compensations (Offset), it took nearly two years to implement a governmental process to conclude the first offset agreement. The first two offset negotiations did not result in agreements. The fault lay with the Poles, who were unable to develop uniform procedures and processes to ensure successful negotiations. One of the notable failures was the Ministry of Economy's inability to conclude an offset agreement with ITT, valued at less than \$12M. The impasse in these negotiations persisted throughout talks with Lockheed Martin, principally caused by changing requirements defined by an ever expanding number of stakeholders.<sup>70</sup> It was against this background of the Polish offset law that the fourth generation multi-role fighter offset negotiations began.

The initial Request for Proposal (RFP) for purchase of multirole fighter aircraft was issued to the governments of France, Sweden, UK and U.S. The RFP identified a two-phased tender and called both for 24 new and 12 inventory (used) multirole fighter aircraft, and an offset offer equal to the overall aircraft program value, i.e., 100%.<sup>71</sup> Unlike other governments, the U.S. did not participate in any offset arrangements and agreements, a position based on U.S. laws and regulations. With regard to offset arrangements, U.S. Ambassador Hill reiterated this point by stating the U.S. government "does not organize them, nor does it encourage them."<sup>72</sup> Therefore, the U.S. informed Poland that it would encourage U.S. industries to meet offset obligations, but would not be part of ensuring offset obligations were met. This position caused consternation for Polish officials and their negotiators, as the French, Swedish and UK governments actively supported, provided guarantees, and promoted their respective aircraft and offset bids.<sup>73</sup>

The RFP did not specify Polish offset needs; the bidders had to rely on interlocutors who offered various interpretations. Bidders conferences and requests for information from the Polish F-16 team notwithstanding, there was little or no strategic vision of what offset meant and what could be done with an offset. Without a clear, unambiguous Polish statement on offset, the definition

<sup>69</sup> Podbielski, e-mail message to author, October 18, 2006.

<sup>70</sup> Ibid.

<sup>71</sup> Ibid.

<sup>72</sup> Tagliabue, "Lockheed Wins Huge Sale to Poland With Complex Deal."

<sup>73</sup> Podbielski, e-mail message to author, October 18, 2006.

was left to misinterpretation of Polish offset legislation and punditry. The responses to the RFP helped shape technical issues for the subsequent phase two RFP. In particular, the Poles characterized the competitors offset proposals as badly lacking. This masked the fact that Polish authorities were ill-prepared to deal with the size and scope of this potential offset program. While the Ministry of Economy was charged with signing an offset agreement, it proved less than capable of identifying, managing and articulating requirements which could benefit from an offset arrangement.<sup>74</sup>

In the RFP second phase, Poland changed the specification from a combination of 36 new/inventory to 48 new aircraft, and retained the requirement for 100% offset. The French, UK/Swedish, and U.S. offset proposals each exceeded \$10B as evaluated by the respective bidder. In evaluating these, the Poles assessed each offset proposal downward. For example, if a bidder submitted \$12B in proposed offsets, Poland assessed its value at \$7B. This reassessment was based either on dismissing certain offset proposals or revaluating the values of the remaining proposals downward. Low multipliers offered by Poland also contributed to this reassessment.<sup>75</sup>

Unfortunately, very few details of the Dassault and Saab/BAE offset proposals are available because the Poles involved in the assessment and evaluation of offset proposals signed non-disclosure statements. In addition, the Saab/BAE and Dassault teams, in conjunction with the Swedish, British, and French governments respectively, classified their programs and offset proposals. However, open-source articles do allow some insight into the proposals.

Total Dassault offset proposals were estimated at 82, 65 of which were for defense and aerospace companies. As part of the proposals, Dassault offered final assembly of the Mirage 2000 at Mielec. It also proposed that Mielec and Świdnik be the exclusive suppliers of Mirage 2000 components and that Świdnik increase the number of components manufactured for the Falcon business jet and Rafale intakes. Dassault also offered to become a part of the Iryda/Iskra 2 program, and to flow work to the Hydral, WZL-2, Kalisz, and Rzeszow engine factories, specializing in hydraulics.<sup>76</sup>

Dassault assessed their proposed offsets at \$3.8B, while Poland, according to Deputy Economy Minister Andrzej Szarawarski, determined the value after verification to be \$2.1B.<sup>77</sup> It is difficult to assess how these numbers were arrived at with the limited information available. Speculatively, the numbers were arrived at by using multiplier factors defined earlier in this paper, with the multiplier factors biased in favor of high-technology offsets.<sup>78</sup>

Despite having the lowest assessed value of the three offset proposals, Yves Robins, Deputy Chairman of International Affairs for Dassault-Breguet, defended the Dassault proposal:

“What we say is this: the Polish Government demands 100 percent of the offset. We guarantee that it will be even higher. But today we cannot say how much higher. What we propose is to tie the Polish industry to successful aircraft production programs such as Mirage 2000, Rafale, Airbus, and Falcon. These programs are planned to last 20-30 years. Can anyone say today how many procurements will be realized over these 30 years? Obviously, no one can...Our

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<sup>74</sup> Podbielski, e-mail message to author, October 18, 2006.

<sup>75</sup> Ibid.

<sup>76</sup> Penney, “Proposals Issued for Poland’s Fighter Contest.”

<sup>77</sup> The Warsaw Voice Online, “Offsets: The Big Payback.”

<sup>78</sup> Glowacki and Sobzack, “Poland Opts for F-16s.”

offer of indirect offset is big and includes different proposals. It also envisions cooperation in, among others, ship construction, and steel industry, as well as assistance in road management and maintenance.”<sup>79</sup>

The Swedish (Saab/BAE) offset proposal was initially assessed as the largest. The proposal included final assembly of the Gripen in a depressed part Poland with the potential creation of 50,000 direct and indirect jobs and exclusive supply of some of the aircraft structures from Mielec and Świdnik.<sup>80</sup> Other proposed offsets went to ETC-PZL Aerospace Industries, makers of simulators, and WZL-2 for a regional maintenance work center in conjunction with Saab Aerotech Telub.<sup>81</sup>

The Swedish/British bidder assessed the offset value at \$7.48B with the price of the bid at \$3.15B. Following verification and application of the offset multiplier, Deputy Economy Minister Andrzej Szarawarski stated Poland downgraded the value of the offer to \$4.7B.<sup>82</sup> The Polish assessment of the offset offer from Saab/BAE caused Björn Magnusson, Saab/BAE Polish operations chief, to comment, “We were very disappointed to see the American offset deal assessed as better than ours.”<sup>83</sup>

The offset proposal submitted by Lockheed Martin was valued at \$9.8B,<sup>84</sup> with a bid of \$3.58B for 48 F-16 C/D Block 52+ multi-role fighter aircraft. The operating principle was that Poland would select offsets from this offer that would equal the program value of the aircraft (\$3.58B). On January 21, 2003, the Poles informed a combined U.S. and Lockheed Martin team that the new 100% offset requirement was \$6.028B, the value that Poland reduced the offer to after verification and application of Polish Law offset multipliers. The offset became 170% (of program value) and the largest in commercial history. Mac Stevenson, Vice President for Business Development at Lockheed Martin, stated, “We have offered more percentage-of-offset to Poland than we’ve ever offered anywhere else in the world.”<sup>85</sup> Fully 61 percent of the offset proposal was approved by the Polish offset committee, for a total of 104 commitments with 49 involving civilian sector indirect offset investments.<sup>86</sup> Examples of the proposed offsets are included in Table 5.2.

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<sup>79</sup> Stylinska, “Mirage Backs Partnership: Interview with Yves Robins.”

<sup>80</sup> The Economist, “We Still Rather Like the Americans.”

<sup>81</sup> Penney, “Proposals Issued for Poland’s Fighter Contest.”

<sup>82</sup> The Warsaw Voice Online, “Offsets: The Big Payback.”

<sup>83</sup> Kosc, “Poland Turns to U.S. for Fighter Jets.”

<sup>84</sup> The Warsaw Voice Online, “Offsets: The Big Payback.”

<sup>85</sup> Bollyn, “Why Eastern Europe Supported War.”

<sup>86</sup> The Warsaw Voice Online, “Offsets: The Big Payback.”

**Table 5.2: Offset Investments, Sale of F-16 Aircraft to Poland<sup>87</sup>**

#	Number	Name of Offset Project	Offset Provider	Offset Recipient
1	1-100	Development of a nation-wide professional, mobile radio link system on the TETRA standard	Motorola, Inc.	ZR Radmor S.A., Gdynia, ComputerLand S.A., Prokom S.A.
2	1-105	Support in attaining FAA certification and in selling the M-28 and M-18 aircraft on the North and South American markets. Development of programs for derivative-type aircraft. Cooperation in the area of parts assembly for other types of aircraft manufactured by PZL Mielec	Addison Equipment Company; AvCraft Aviation	Polskie Zakłady Lotnicze sp. z o.o., Mielec
3	1-107	Technology transfer with exclusive rights for manufacturing of air turbines for the domestic market and for export, with the goal of attaining EU norms	Winvid, Belgium	CNPEP Radwar S.A., Warsaw PZL-Świdnik S.A., Świdnik
4	1-110	Capital injection for the restructuring and modernization of WSK PZL-Rzeszow S.A. and the purchase of goods and services	United Tech Corp, Pratt & Whitney, East Hartford, CT, USA	WSK PZL-Rzeszow S.A., Rzeszow
5	1-112	Creation of a Material Research Center at the Air Institute	United Tech Corp, Pratt & Whitney, East Hartford, CT, USA	Instytut Lotnictwa, Warsaw
6	1-114	Purchase of aircraft parts from Polskie Zakłady Lotnicze Sp. z o.o.	United Tech Corp, Pratt & Whitney, East Hartford, CT, USA	Polskie Zakłady Lotnicze Sp. z o.o., Mielec
7	1-115	Modernization of Military Air Facility No. 4 in order to make possible the conducting of engine tests of the F-100-PW-229 engine	United Tech Corp, Pratt & Whitney, East Hartford, CT, USA	Wojskowe Zakłady Lotnicze Nr 4, Warsaw
8	1-132	Purchase of aircraft components from PZL-Świdnik S.A.	Textron (Cessna Aircraft)	PZL-Świdnik S.A., Świdnik
9	1-133	Purchase of aircraft components from Polskie Zakłady Lotnicze Sp. z o.o.	Textron (Cessna Aircraft)	Polskie Zakłady Lotnicze Sp. z o.o., Mielec
10	1-134	Purchase of helicopter components from PZL-Świdnik S.A.	Textron (Cessna Aircraft)	PZL-Świdnik S.A., Świdnik

Note: This table was representative of an initial, incomplete list of over 40 projects presented to Poland by Lockheed Martin. Each transaction needed to be negotiated separately and agreed to by the parties directly involved. Companies were required to finalize the agreements within 120 days of the April 18, 2003 signing of the overarching framework arrangement between Lockheed Martin and Poland. The projects' implementation period was over the successive 10 year period.<sup>88</sup>

Lockheed Martin Aerospace's President replied to the Polish interlocutors that he had a plan to move forward. This plan required the effort of both Lockheed Martin and the Polish Government. Lockheed Martin, he said, accepted the challenge and concurrently required Polish assistance, namely on multipliers and penalties, to make the deal work. The Poles agreed. Ultimately, and only after the downselect of the F-16, the Minister for Science, Michael Kleiber, was appointed to identify high-value Polish programs and projects for offset consideration, and the Agency for Industrial Development (ARP) detailed to negotiate the offset agreement.<sup>89</sup>

<sup>87</sup> U.S. Congress, "Opening Statement of Chairman Duncan Hunter ... Impacts of Defense Trade Offsets."

<sup>88</sup> Ibid.

<sup>89</sup> Podbielski, e-mail message to author, October 18, 2006.



Even then, other stakeholders did not permit the process to operate smoothly. Each offset participant submitted, in what is common industry practice, proposals which cumulatively exceeded the program value of the multi-role fighter aircraft. The intent was to provide Poland with a menu of choices from which they could select proposals offering the most promising advantage and opportunity (see Table 5.2).<sup>90</sup>

A pending \$6.028B offset obligation posed significant liabilities for Lockheed Martin. In addition to coordinating offset arrangements on behalf of its industrial partners, Lockheed Martin was required to cover the value of U.S. government furnished equipment (GFE), estimated at approximately \$150 million. Polish leaders agreed to assist, but this was news to Polish negotiators. Although the Poles proved themselves shrewd negotiators, the negotiations came close to derailment on more than one occasion. As the Poles demonstrated, they were sticklers on form rather than substance.<sup>91</sup>

The Poles tried relentlessly to pull the U.S. government into the offset process. U.S. regulations mattered little. Poland wanted U.S. written guarantees that Lockheed Martin would fulfill its offset obligations. The U.S. would not, and could not, offer written guarantees in order to preclude incurring offset liabilities. To reinforce this point, Chairman Hunter, U.S. House of Representatives Committee on Armed Service, wrote, “The U.S. government cannot enter into, encourage or finance offset agreements. The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, resides with the companies involved.”<sup>92</sup> In the end, the Lockheed Martin record on meeting its offset obligations spoke for itself. This was as far as the U.S. government was willing to go.

Lockheed Martin’s efforts to secure agreement as to the size and with whom an offset would be concluded appeared to be final. Various stakeholders, including the Office of the President and Prime Minister, interjected themselves to promote favorite projects and assurances that their political district would become offset beneficiaries. The determination by the Minister of Science to select and announce the Top Five proved elusive. The most contentious issue that arose was Lockheed Martin’s pending liability, a \$6.028 debt, once the Offset Agreement was signed on Good Friday, April 18, 2003. For the Poles the deal of the century threatened Lockheed Martin viability.

The U.S. Ambassador offered his office to discuss approaches that would satisfy both Polish and Lockheed Martin immediate needs. The result was an agreed upon framework that allowed Lockheed Martin to reduce the initial offset obligation without incurring a liability by proportionately allocating the offset obligations over the 10 year implementation period. As not all offset obligations would be immediately implemented, accounting could be deferred. The Poles could still claim the full value of their 100% offset.<sup>93</sup>

The most pressing details were agreed to at 4 a.m., April 18, 2003. The Foreign Military Sales case, the Foreign Military Financing loan, and the offset agreement were signed by noon.<sup>94</sup> As significant as the offset agreement was to concluding the contract, economics were not the most important factor in the Poles’ ultimate decision to purchase the F-16.

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<sup>90</sup> Podbielski, e-mail message to author, October 18, 2006.

<sup>91</sup> Ibid.

<sup>92</sup> U.S. Congress, House of Reps, Committee on Armed Services, “Full Hearing on Impacts of Defense Trade Offsets.”

<sup>93</sup> Podbielski, e-mail message to author, October 18, 2006.

<sup>94</sup> Ibid.

## Chapter VI: Politics

Shortly following Poland's announcement it would purchase the F-16, Charles Edelstenne, Dassault Chief Executive Officer, made it clear that he felt the choice of an American fighter over a European one was a political decision. Edelstenne noted, "The political element was the dominating element, much more than the quality of the material and the price. I felt for a very long time that they [Poland] very much favored rapprochement with the Americans. So, it's not a surprise."<sup>95</sup> While not as vocal in their views, the Saab/BAE team also expressed disappointment in the ultimate decision. These sentiments pointed to an underlying current of politics vice financing, offsets, and capabilities in the decision to purchase the F-16. The politics were framed in the context of European and U.S. relationships as they existed at the time.

On December 27, 2002, the day Poland announced plans to purchase the F-16, Ambassador Hill, in commenting on the deal, stated, "It represents more than an airplane. It is a fundamental choice about *strategic political* and military relationships."<sup>96</sup> This statement, indeed, pointed toward the significance of politics. Kai Olaf Lang, a specialist on Central and Eastern Europe at the German Institute for International and Security Affairs, elaborated further:

"The Polish political class sees the country's future as resting on two pillars: on a close relationship with the U.S. and the [EU's] Nice Treaty, which guarantees Poland almost the same voice in European affairs as France or Germany. Poles view the U.S. as the only realistic guarantee against something going wrong in Russia. The Nice Treaty, on the other hand, is their way of preventing Germany and France from controlling Europe."<sup>97</sup>

A short analysis of Poland's history lends credence to this claim. The Poles have suffered a long history of invasion and occupation by both their eastern and western neighbors. Like most European countries, Poland is heavily burdened by their history and heritage. This history led many analysts to question whether Poles considered themselves Europeans. However, a majority of Poles supported a referendum to join the European Union, effectively quelling questions about Polish identity. Nevertheless, Poland's uneasiness with its history, in particular with regard to Germany and Russia, causes a certain reluctance to identify with either of these countries.<sup>98</sup>

Historically, Poland has learned not to rely on European promises. Poland was brutally carved up by the Germans and the Russians after both Great Britain and France had guaranteed Poland's security in the 1930s. Former Polish ambassador to Germany, Janusz Reiter has speculated, "For western European intellectuals, anti-Americanism is like rebelling against one's parents ... a desire for emancipation. In Poland, anti-Americanism was a tool of communist rule and it leaves a very bad taste. People forget how differently these issues look from Eastern Europe."<sup>99</sup>

Poland's trepidation with respect to history, combined with a desire to play a more active role in NATO and European affairs, caused the country to make a strong relationship with the United States a cornerstone of their national security strategy. The U.S. supported this relationship. A

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<sup>95</sup> Carr, International Affairs.

<sup>96</sup> U.S. Diplomatic Mission to Warsaw, "Polish F-16 Roll-out Attended by Polish and U.S. Dignitaries."

<sup>97</sup> Moran, "For Poles, the Choice was Easy."

<sup>98</sup> Poland versus the USA – The Culture Clash, "Polish versus the USA – The Culture Clash."

<sup>99</sup> Moran, "For Poles, the Choice was Easy."

White House Press release, dated July 17, 2002, stated, “The United States and Poland will benefit from closer military cooperation. This cooperation, moreover, will demonstrate to other NATO Allies and nations aspiring to join the Alliance the possibilities and benefits of modernizing and transforming defense capabilities.”<sup>100</sup>

Commenting on Poland’s relationship with the U.S., Poland’s then Ambassador to the U.S., Przemysław Grudzinski, stated, “The development of Polish-American relations has been a priority for Polish governments since the collapse of Communism. Traditionally, relations are dominated by strong cooperation in international security. This reflects a convergence in the assessment of the challenges facing the international community as well as the shared values upon which the policies of both countries are built.”<sup>101</sup> Poland had been an ardent supporter of the U.S. led transformation toward democracy in Iraq, in particular. Grudzinski further cited NATO as a “key element of cooperation in maintaining security in the transatlantic area.”<sup>102</sup> In his published remarks, he reiterated the advance of transatlantic links as one of the pillars of Polish foreign policy.

Further emphasizing the importance of the U.S.-Polish relationship in Poland’s security policy, Grudzinski argued that Poland would not be forced into a situation where the Polish government must choose between the unique strategic cooperation with the U.S. and a “loyal” stance toward the European Union. Grudzinski felt the Polish relationship with the U.S. was destined to be a “litmus test of the quality of the transatlantic alliance,”<sup>103</sup> and, as such, rifts that developed in this relationship caused great concern for Poland. The alignment of Poland with the U.S. in formulation of security policy was not a one-way street, however.

In the summer of 2002, prior to the Poles’ decision to purchase the F-16, U.S. President George W. Bush honored Polish President Kwasniewski and his wife with a state dinner, only the second of President Bush’s then 18-month presidency.<sup>104</sup> The state dinner followed a visit by President Bush to Poland, where he was warmly received by enthusiastic crowds. During a visit to Poland about a year later, the President commented that the US had no greater friend in Europe than Poland. He also expressed his pleasure with the expanded Polish-American relationship.<sup>105</sup> In other EU capitals, Bush was met with protests, criticism, and politicians and press that lectured and jeered him.<sup>106</sup>

During a series of meetings in conjunction with President Kwasniewski’s official trip to Washington, D.C., and as reflected in official press releases, the two leaders agreed to develop closer military relationships to benefit both countries. The establishment of a Military Cooperation Working Group to look at specific areas for robust cooperation was agreed upon. Among the specifics was an agreement on military cooperation in modernizing Poland’s defense acquisition process.<sup>107</sup> These series of meetings were held in July 2002, five months before the

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<sup>100</sup> The White House, “U.S. – Poland Military Cooperation Initiative.”

<sup>101</sup> Grudzinski, “Poland’s Accession to the European Union and Its Impact on U.S.-Polish Relations.”

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

<sup>104</sup> Politics: Present Polish-American Relations, “Polish Politics-Present Polish-American Relations.”

<sup>105</sup> U.S. Diplomatic Mission to Warsaw, “Gdansk Refinery Upgrade Signing Ceremony.”

<sup>106</sup> Politics: Present Polish-American Relations, “Polish Politics-Present Polish-American Relations.”

<sup>107</sup> The White House, “U.S. – Poland Military Cooperation Initiative.”

F-16 decision. As a result, Bush was accused of personally exerting political pressure in arms deals in which former Eastern Bloc countries switched to American weapon systems.<sup>108</sup>

Based on the aforementioned cooperation agreement, US experts helped train the Poles in procurement procedures. The French and UK also participated. The results of the training sessions, however, were minimal. Lack of substantive change resulted from the Polish Defense Ministry's preference for foreign military aid, largely in the form of US Foreign Military Sales grants, as opposed to an open selection process. The US Defense Security Cooperation Agency followed up on these initial training sessions with another round of training focused on teaching Polish officials the "how to" of conducting a procurement process, rather than merely implementing a US-like procurement model. The ultimate goal was to provide stability and transparency to the Polish defense sector. This goal was deemed crucial in light of the ongoing fighter procurement decisions and reflected the growing US-Polish relationship.<sup>109</sup>

The closeness of the emergent U.S.-Polish relationship, the Poles' support of the U.S. lead in the war in Iraq, and the sale of the F-16 to Poland were speculatively more than coincidental. When the U.S. looked to Europe to coalesce a coalition of the willing to "liberate" Iraq, many of the "old Europe nations" came out against the war. This dissention amongst traditional partners caused a transatlantic crisis that led to the U.S. looking elsewhere in Europe for support. The U.S. found support, in particular, in Poland. The war in Iraq was used as a litmus test by the U.S. to determine who the U.S. could count on, with Great Britain, Italy, Spain, and Poland lining up behind the U.S., and Germany and France opposing the U.S. The decision to back the U.S., as well as the decision to purchase the F-16, had long-term implications for Poland.<sup>110</sup>

The near-term result of Poland's decision to back the U.S. was a meteoric rise in Poland's status as a partner. The alignment of Poland with Great Britain, Italy, and Spain in support of the U.S. assured Poland's voice and significance in shaping fractured transatlantic relations and in the future look of the European model of political security. This stance also assured Poland's long-term stand on hotly debated issues, making the decision, in combination with the decision to buy the F-16, a decision to solidify Poland's place and influence for the next decade and to strengthen the Polish-American relationship.<sup>111</sup> Poland was the only Eastern European nation involved in ground operations in Iraq and its backing of the U.S., along with the eventual decision to buy the F-16 over the European bids, raised the ire of Poland's EU neighbors. Janusz Reiter commented,

"The debate over the war made us wonder whether anyone had our interests in mind. We were expected to take our directions from the Germans and the French, to 'be quiet.' But the French and Germans are surrounded by democracies. On our borders are Ukraine, Belarus, and Russia. It's a very different neighborhood. The way we were treated really raised the issue of trust. If you make people in Poland choose between the U.S. and Europe in the security field, they will choose the U.S. Why? Because of history, but also the feeling that in security policy, Europe still is a promise. The U.S. is a reality."<sup>112</sup>

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<sup>108</sup> Sennott, "Arms Deals Criticized as Corporate U.S. Welfare."

<sup>109</sup> Holdanowicz, "Polish Defence Industry: Living on the Edge."

<sup>110</sup> Reiter, "Poland: Toward a More Perfect Union – or a Superpower Alliance?"

<sup>111</sup> Ibid.

<sup>112</sup> Moran, "For Poles, the Choice was Easy."

The U.S. had done the most to free central Europe from Russian bondage, as well as finance the initial years of post-communist transition. This resulted in a feeling of gratitude on behalf of many of the new post-communist central European countries.<sup>113</sup>

Closeness to the U.S. also offered Poland and smaller European countries a means to counter-balance the influence of Germany and France within the EU. They feared U.S. disengagement from Europe over Iraq, and a German-French alliance that dictated EU policy, due to their size and ability to wield political influence, to the rest of Europe.<sup>114</sup> As media consultant Gunnar Ulbrich noted,

“These countries don’t want to get completely under the control of Germany and France. They want to keep a certain connection to the United States to help them make their way in the EU. Otherwise, they have no recourse, and the rules and regulations adopted by the big countries, whether it’s media or medicine or a European army, are imposed 100 percent on the rest.”<sup>115</sup>

The above stated geo-strategic politics significantly influenced the Poles’ decision to purchase the F-16. According to one Polish commentator,<sup>116</sup> “Lockheed Martin didn’t win the contract, the U.S. government did, with pressure and support coming from the very highest levels. They created a program that, *politically* and economically, it was very hard to say no to.”<sup>117</sup> As New Republic senior editor John B. Judis speculated, the contract for the F-16 sale was tied to Poland’s support in Iraq as a quid pro quo arrangement.<sup>118</sup> Therefore, the sale is best framed through a political lens, with the Polish commitment in Iraq exchanged for U.S. investment in Poland.

Additionally, the F-16 choice exemplified NATO enlargement toward the East, a reorientation favored by the U.S. and reflective of U.S. influence over former Communist Eastern-bloc European countries. The F-16 tender illustrated the U.S. government’s ability to exert influence within “new Europe” indirectly via arms sales and directly via NATO.<sup>119</sup> This begs the question of whether the economic factors (the purchase of the F-16 and the offset arrangements) would have surfaced without the political quid pro quo (the agreement for Poland to support the war in Iraq).

Even as the press speculated on the connection between Iraq and the F-16 deal, Polish officials denied one existed, claiming that support for the war in Iraq was in no way linked to economic gains. As Polish Foreign Minister Włodzimierz Cimoszewicz asserted, “Our decisions were not taken on the basis of tactical considerations. We were not calculating what we can win from this or that choice. We did not expect to make political profits or economic gains. The decision to support the invasion of Iraq was mainly based on our understanding of the true meaning of alliance and solidarity.”<sup>120</sup> Cimoszewicz went on to add that, while not the driving factor, the

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<sup>113</sup> The Economist, “We Still Rather Like the Americans.”

<sup>114</sup> Moran, “For Poles, the Choice was Easy.”

<sup>115</sup> Ibid.

<sup>116</sup> Gregory Filipowicz, Dedefensa.org, “An Existentialist Shift: The F-16 Reaching Into Iraq.”

<sup>117</sup> Dedefensa.org, “An Existentialist Shift: The F-16 Reaching Into Iraq.”

<sup>118</sup> Bollyn, “Why Eastern Europe Supported War.”

<sup>119</sup> Dedefensa.org, “An Existentialist Shift: The F-16 Reaching Into Iraq.”

<sup>120</sup> Little, “U.S. Dollars Wooed Ally in Iraq Coalition.”

political, economic, and other benefits of forging a close military relationship with the U.S. were greatly appreciated.<sup>121</sup>

The decision to purchase the F-16, when decoupled from geo-strategic politics and Iraq, might have looked quite different. According to one European defense economics analyst, “it can be said without fear of contradiction that, but for the attack of 11 September 2001, the U.S. assertiveness that followed and the pressures exerted on the European countries, the sale of the F-16 to Poland would not have taken place in that form. There would have been a more nuanced arrangement, with a split between European aircraft and American aircraft, or, with the possibility of a sale of European aircraft only, or quite simply a postponement of any action.”<sup>122</sup> Thus, the Poles, in deciding to purchase the F-16, in effect, signed an ‘international treaty’ with the US, one with significant political dimensions tied to political considerations of “major national import.”<sup>123</sup> While geo-strategic politics set the stage for the sale, each competing country attempted to politically influence Poland’s decision, as well. Expressing the theme of political influence, W. Luzak, a Polish defense journalist, noted,

“It is common knowledge that the Polish government was facing intense pressure from Paris and Washington to select their respective planes. For Poland, commonality with NATO was more important than pleasing its EU friends, and the F-16 is a NATO staple as far as fighter aircraft is concerned. Of course, there could have been some persuasion from Washington, as there is in most defense deals.”<sup>124</sup>

The French also expressly linked the sale with U.S. military aid to Poland, and both the French and Germans expressed dissatisfaction with the decision.<sup>125</sup>

Yves Robins, the deputy chairman of international affairs for Dassault-Breguet, further added, “It is of no importance for Poland’s security whether you choose a European or U.S. fighter plane. But deciding to buy a European aircraft would give a clear signal that you want to participate in our joint defensive policy.”<sup>126</sup> In essence, Poland, with an invitation to the EU, was pressured by the European countries by being accused of betraying neighbors if they chose the F-16.<sup>127</sup> European competitors also attempted to convince Poland that a larger, harmonized European defense industrial capability, including Poland’s purchase of a European fighter aircraft, would significantly increase European defense industrial potential in comparison with U.S. and other non-European manufacturers.<sup>128</sup>

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<sup>121</sup> Little, “U.S. Dollars Wooed Ally in Iraq Coalition.”

<sup>122</sup> Dedefensa.org, “An Existentialist Shift: The F-16 Reaching Into Iraq.”

<sup>123</sup> Ibid.

<sup>124</sup> Ahmedullah, “Arms Sales: The U.S.-French Tug of War.”

<sup>125</sup> Ibid.

<sup>126</sup> Stylinska, “Mirage Backs Partnership: Interview with Yves Robins.”

<sup>127</sup> Sennott, “Arms Deals Criticized as Corporate U.S. Welfare.”

<sup>128</sup> Piatkowski, “Polish Defence Industry and European Integration.”

## Chapter VII: Analysis and Conclusions

Ultimately, the factors of operational capability, interoperability, economics, and politics must be weighed in terms of their respective significance to determine why Polish officials chose the F-16. Janusz Zemke, the Deputy Defense Minister and Tender Commission Chairman, has suggested that the decision was based 45 percent on price, 40 percent on tactical and operation criteria, and 15 percent on offsets.<sup>129</sup> In addition to these criteria, Zemke expressed his satisfaction with the financial terms, but did not include the terms in percent breakdown used by the Tender Commission to arrive at the final decision. While the percentages highlighted by Zemke may approximate the weight the Tender Commission assigned in deliberations, they do not tell the whole story.

In terms of operational capability and interoperability, there were relatively few differences between the three choices. The F-16, however, was the backbone of the NATO nation's fighter aircraft inventory, with eight NATO nations flying the F-16 in 2002. The popularity of the F-16 within NATO may have played a role in Poland's selection. According to Jerzy Szmajdzinski, the choice was "an optimum solution for the military security of the state [that] meets our obligations as an ally."<sup>130</sup> Polish journalist, Paweł Wroński, supporting the fact that few capability differences existed between the three platforms, commented, "the Polish bid was unique in the sense that it saw a rivalry between three practically comparable aircraft that met our requirements. After all, neither the French Mirage 2000-5 nor the Gripen are inferior."<sup>131</sup> Since all three aircraft provided the capabilities that Poland needed in a fourth generation fighter, capability and interoperability considerations were not the major factor in the Polish decision.

Economics, however, played a larger role in the decision. Zemke stressed the importance of the economic factors, stating that the "offset deals proposed were the key factor influencing the government's choice."<sup>132</sup> Szmajdzinski reiterated Zemke's point, saying the jet order and offset agreement would "bring an economic and technological stimulus for Poland..."<sup>133</sup> However, Wroński editorialized that Poles "must not delude ourselves that the offset accompanying the plane contract will cure all the ails of the Polish industry."<sup>134</sup> With economics playing such an important role in the final decision, the Dassault offer, assessed in real terms at around \$2.1 billion, was far less competitive than the Saab/BAE and Lockheed Martin offers. In fact, as assessed, the Dassault offer did not meet the 100% Polish offset law requirement.

The Dassault team, however, had put together an attractive financing package and had competitive pricing. But, with bid differentials of 10 percent or less, comparable unit procurement costs, a relatively small differential amongst platform capability and weapons packages, and less than \$500 million difference in contract price between the highest and lowest bids, the low-ball offer on offsets from the Dassault team effectively discounted the Mirage 2000-5 Mk2 from an economic perspective. That left an economic analysis of the Saab/BAE and Lockheed Martin offers.

The offset offers from the two remaining teams were relatively comparable as assessed by the

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<sup>129</sup> Simon, "Poland and NATO," p. 135.

<sup>130</sup> Kosc, "Poland Turns to U.S. for Fighter Jets."

<sup>131</sup> Wronski, "Planes and the Polish Cause."

<sup>132</sup> Kosc, "Poland Turns to U.S. for Fighter Jets."

<sup>133</sup> Tagliabue, "Lockheed Wins Huge Sale to Poland With Complex Deal."

<sup>134</sup> Wronski, "Planes and the Polish Cause."

competitors themselves. Upon application of offset multipliers by the Poles, with additional weight presumably assigned to technical industries, the offers remained relatively comparable, at approximately \$4.7 billion for the Saab/BAE offer and \$6 billion for the Lockheed Martin offer. Financing terms were relatively comparable between the two offers, with the Gripen contract price slightly less than the F-16. Both offset offers guaranteed significant direct and indirect investment in Polish industry, and both assured the significant creation of jobs for Polish citizens.

The final figures of \$4.7 billion versus \$6.0 billion were less relevant, because the numbers could have gone either in favor of the Saab/BAE or Lockheed Martin team dependent on the Poles' assessment of the offer and the multiplier used. Additionally, while large numbers (billions of dollars) were beneficial for the politicians to present to the Polish public, the numbers meant little until they came to fruition through actual investment and compliance with the offset agreement. With relatively comparable offers between Saab/BAE and Lockheed Martin from an economic perspective, the overriding factor in the decision was politics. Adding to the economic and technical benefits of purchasing the F-16, Szmajdzinski commented the offset deal would "...strengthen our links with the United States."<sup>135</sup>

Politics played the predominant role in the Polish government's decision to buy the F-16. Szmajdzinski attempted to counter this conclusion by stating the decision was based "on merit, not politics."<sup>136</sup> The facts support otherwise. The Poles were acutely aware of the suffering of their country during the 20<sup>th</sup> century. Poland remained distrustful of Russia to the east, Belarus to the north, and Germany to the west. U.S. and NATO membership remained Poland's guarantee of continuing freedom from the dominance and yoke of Russia. The F-16 was representative of Poland's relationship with both the U.S. and NATO. Poland supported the U.S. policy toward Iraq which created a schism between Warsaw and Paris at about the same time Poland was deciding which fighter aircraft to purchase.

As a professed pillar of national security, Poland supported the EU's Nice Treaty and the near-equivalent voice it provided Poland within EU politics. Poland wanted to preclude the French-German connection within the EU from becoming powerful to the point of dictating policy to other EU members. At the same time, one of the pillars of Poland's national security was the bilateral transatlantic relationship. Understanding the importance of this relationship to Poland's national security, many in the press speculatively tied the Polish support for the Iraqi War and the F-16 decision together.

Poland's support for the Iraq War, however, was not necessarily tied to the decision to buy the F-16. Although talks at the highest levels of both the U.S. and Polish governments on Iraq and the F-16 purchase occurred during approximately the same timeframe, there is no convincing evidence of Polish support for Iraq as a quid pro quo for U.S. investment in Poland via the F-16 deal. Poland was attempting to become more involved in the international community and to play a greater role. As part of this desire to be more involved, according to Ambassador Grudzinski, "Poland consider[ed] participation in this operation as an investment in international security. Our contribution to the operation in Iraq also sends a strong message that Poland is a trustworthy and reliable ally and takes its international obligations seriously."<sup>137</sup> Poland's vision

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<sup>135</sup> Tagliabue, "Lockheed Wins Huge Sale to Poland With Complex Deal."

<sup>136</sup> Kosc, "Poland Turns to U.S. for Fighter Jets."

<sup>137</sup> Grudzinski, "Poland's Accession to the EU and Its Impact on U.S.-Polish Relations."



of being a greater international player, coupled with support for Iraq, naturally strengthened ties with the U.S.

Lieutenant General Tome Walters, the Director of the U.S. Defense Security Cooperation Agency, buttressed the conclusion that the final decision was largely political in nature by pointing out that even the financial arrangements were uniquely political. General Walters stated, "For the time being, we do not intend to grant government loans to any country except Poland."<sup>138</sup> This implied the Polish deal was unique in both its economics and politics. The additional implication was the Polish F-16 sale was unlikely to be replicated in the future in terms of financing, offset, and politics. Therefore, the lessons learned from the uniqueness of the Polish F-16 tender were not largely transferable to other large foreign military sales.

Ultimately, according to Colonel Peter Podbielski, "the tender was ours [U.S.] to lose."<sup>139</sup> Podbielski added that the Poles had privately relayed to the U.S. team that the proposal submitted in phase one of the tender bid was poor, notwithstanding the poor quality of the French and UK/Swedish offers. The U.S. team heard the message loud and clear. The message became a catalyst for a more energetic response by the U.S. team in phase two of the bidding. Once a sizable offset package was in place to justify the sale to the Polish electorate, and this package was coupled with attractive and creative financing driven by politics at the highest level on the U.S. side, the final decision became a political one.<sup>140</sup> Brigadier General Czaban supported this conclusion, commenting the final decision was a political decision, but, as a pilot he agreed with the politicians.<sup>141</sup>

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<sup>138</sup> Evans, "The Financing Factor in Arms Sales: the Role of Official Export Credits & Guarantees," p. 560.

<sup>139</sup> Podbielski, e-mail message to author, October 19, 2006.

<sup>140</sup> Ibid.

<sup>141</sup> Czaban, personal interview with author.

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